REPORT OF THE MANAGER OF THE FEDERAL CROP INSURANCE CORPORATION, 1943

UNITED STATES DEPARTMENT OF AGRICULTURE,
WAR FOOD ADMINISTRATION,
FOOD PRODUCTION ADMINISTRATION,
FEDERAL CROP INSURANCE CORPORATION,
Washington, D. C., October 16, 1943.

MR. J. B. HUTSON,
Director, Food Production Administration.

DEAR MR. HUTSON: I present herewith the annual report of the activities of the Federal Crop Insurance Corporation for the fiscal year 1943.

This report, you will note, exceeds the scope of a routine annual report in that it discusses at some length the original objectives of the crop insurance program and to what extent these objectives have been achieved after nearly 5 years of actual experience. This departure from recording only 1 year's activities seemed important and appropriate in view of action taken last July by the Congress to discontinue the functions of this Corporation.

Sincerely yours,

J. CARL WRIGHT, *Manager.*

FOOD PRODUCTION ADMINISTRATION,
Washington, D. C., October 25, 1943.

HON. MARVIN JONES,
Administrator, War Food Administration.

DEAR MR. JONES: Herewith is the report of the Federal Crop Insurance Corporation for the fiscal year ended June 30, 1943.

Sincerely yours,

J. B. HUTSON, *Director,*
Food Production Administration.

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THE FEDERAL CROP INSURANCE PROGRAM

The Federal crop insurance program was adopted for wheat in 1938 and amended to include cotton in 1941, with several objectives in view. One was to provide wheat and cotton farmers an agency

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through which they could obtain protection against the effects of crop failure, a constant threat to their financial security. The Federal Crop Insurance Act is comparable in many ways to the Social Security Act for industrial populations, the Government providing a system whereby the population most directly concerned carries all or a substantial part of the burden of its disaster. The Government bore the expenses of administration and operation; insured farmers were expected to carry the cost of the crop losses indemnified. To this extent that segment of the Nation's population most directly concerned was furnished an agency through which it could carry its own crop-failure burden. Since severe crop losses in past years have often brought a heavy public relief burden, it might be said that one of the objectives of this plan was to reduce the relief burden resulting from agricultural catastrophes. Another objective of wheat and cotton insurance was to experiment with and develop experience in this field of insurance so that, if it proved successful, similar protection could be extended to producers of other farm crops.

SOME OF THE OBJECTIVES ACHIEVED

To a certain extent these objectives have been accomplished. As shown in table 1, nearly half a million wheat and cotton producers have been indemnified for losses of their crops. This experience covers 4 years for wheat but only 1 year for cotton. These crop losses which, without the benefit of insurance, would have struck the individual grower with full force were shared by all insured wheat and cotton producers. But the half million growers who were indemnified were not the only ones to share the benefits. During those 4 years nearly one and a half million producers were protected. The protection itself—the freedom from worry over possible disaster—is perhaps as important a benefit as the actual indemnification for loss.

TABLE 1.—*Federal crop insurance experience by years, 1939–43*

WHEAT

Crop year	Farms insured [1]		Indemnities	Area insured	Insured production	Premiums collected	Indemnities	Premiums less indemnities
	Insurance written	Insurance in force						
	Number	*Number*	*Number*	*Acres*	*Bushels*	*Bushels*	*Bushels*	*Bushels*
1939	----------	165,775	55,932	7,010,390	60,826,075	6,670,315	10,163,899	−3,493,584
1940	379,710	360,596	112,762	12,754,834	108,284,574	13,796,798	22,899,016	−9,102,218
1941	420,940	371,392	130,770	11,734,263	104,306,380	12,643,186	18,837,078	−6,193,892
1942	504,047	400,048	108,420	[2] 9,631,265	88,063,150	8,770,002	10,570,880	−1,800,878
Total	----------	1,297,811	407,884	41,130,752	361,480,179	41,880,301	62,470,873	−20,590,572

COTTON

					Pounds	*Pounds*	*Pounds*	*Pounds*
1942	([3])	172,721	47,195	2,725,336	403,143,058	31,451,235	52,159,220	−20,707,985

[1] Includes duplication where both landlord and tenant are insured.
[2] Estimated.
[3] Not available.

Preliminary figures on number of farms on which insurance was written for 1943 are: Wheat, 487,663; cotton, 177,296.

This protection, on a voluntary basis and paid for by the insured, is carried by nearly one-third of the wheat producers of the country.

The proportion of the Nation's wheat acreage insured is considerably less than the proportion of wheat farmers insured because participation has shifted from the Plains States, where large wheat acreages are common, to States north and east of the Plains, where diversified farming prevails. The reason for this shift is explained on page 21. About 12 percent of the cotton acreage is insured.

The accomplishments have fallen somewhat short of the objectives in this respect, but it should never have been presumed that all farmers would voluntarily buy insurance. In fact, the President's Committee on Crop Insurance in its report implied that 50 percent participation might be expected. Not all farmers, not even the majority, carry the older established lines of insurance, such as life, health, accident, and automobile insurance. These forms of insurance have been in existence for a long time. This year, 1943, is the fifth for wheat insurance and the second for cotton. Perhaps after crop insurance has become more firmly established, a larger portion of farmers planting these crops would be willing to pay for the protection offered.

One part of the original objective was that farmers should bear the full cost of the losses. As yet they have not done so because indemnities have exceeded premiums each year. A capital fund was established to absorb losses in poor crop years until premiums in years of good crops should make up the deficit. While the record of premiums and losses has not been as satisfactory as anticipated, it must be recognized that the program was started without experience and without an actuarial basis predicated upon actual insurance losses. It was many times stated that it would be 10 years before the final results could be judged. Improvements have been made every year and premium rates have been increased. Individual States and counties have demonstrated that they can lay aside a substantial part of premiums in good crop years to cover losses in poor crop years. No losses at all were paid in 245 of the 1,633 counties in which wheat was insured in 1942; in 308 additional counties losses amounted to less than one-fourth of the premiums, and in 961 counties premiums collected were sufficient to pay the losses. It seems therefore, that, although the objective of balanced operations has not been fully attained, the achievement of this objective is not impossible.

The cost to the Government of administering this program is from 6 to 7 million dollars annually. The expenses for both wheat and cotton are not much in excess of the expenses in the early years for wheat alone, as is illustrated in table 2. Costs have been kept down through economies and improvements in operations. In the meantime, participation has been increasing and as a result of these factors the expense per insured farm is but little more than one-third of what it was the first year.

TABLE 2.—*Total annual and per unit costs of administering the Federal Crop Insurance program, by years, 1939–43*

Fiscal year	Farms insured	Total expense	Cost per insured farm
	Number	*Dollars*	*Dollars*
1939	165,775	4,457,923	26.89
1940	360,596	5,691,917	15.78
1941	371,392	5,113,549	13.77
1942 [1]	572,769	7,012,661	12.24
1943 [1]	571,294	6,563,111	11.49

[1] Includes wheat and cotton.

To what extent the Government relief load has been lightened by crop insurance it would be impossible to say. If all crops were subject to insurance and a large proportion of the producers carried such protection, the effect on the relief burden would no doubt be very far reaching. This would be most evident in years of widespread catastrophes such as 1934 and 1936.

VALUABLE INFORMATION GAINED

As pointed out above, one of the objectives of the program was to experiment with this form of insurance with a view to its possible application to farm crops on a wide scale. Certainly the program has provided a very practical experiment, and a great deal of valuable information has been obtained. There are those who say the experiment has been a failure. There are also those who say the experiment has not been carried on long enough to be conclusive. The experiment has been seriously needed. Moreover, the farmers paid a substantial part of the cost.

The program was discontinued by Congress, in the following language, in the 1944 Agricultural Appropriation Act:

> Administrative and operating expenses: For operating and administrative expenses under the Federal Crop Insurance Act, approved February 16, 1938, as amended (7 U. S. C. 1501–1518; 55 Stat. 255–256), $3,500,000, including the employment of persons and means in the District of Columbia and elsewhere, printing and binding, purchase of lawbooks, books of reference, periodicals, and newspapers: *Provided*, That no part of this appropriation shall be used for or in connection with the insurance of wheat and cotton crops planted subsequent to July 31, 1943, or for any other purpose except in connection with the liquidation of insurance contracts on the wheat and cotton crops planted prior to July 31, 1943.

This legislation was one of the most contested items of the 1944 Agricultural Appropriation Act (H. R. 2481). The two primary reasons assigned for liquidating the crop-insurance program were (1) excessive total costs, and (2) insufficient participation. As of June 30, 1943, the total amount by which premium collections failed to meet indemnities was 20,590,000 bushels of wheat and 20,708,000 pounds of cotton. Distinctly separate from operating losses is the amount of $28,839,161, which is the sum total of annual appropriations for administration. In this connection any appraisal of total costs to the Government for administering crop insurance should consider that premiums have not been loaded to pay administrative costs.

About 173,000 cotton growers participated in 1942, the first year the program was offered to them, and participation by wheat growers has increased each year from 165,775 in 1939 to approximately 487,000 in 1943.

Upon signing this bill on July 12, 1943, the President issued the following statement:

> The Department of Agriculture appropriation bill, which I have today signed, provides no funds for continuing the crop-insurance program. I regret exceedingly that Congress failed to provide funds to continue this aid to the farmers of the Nation.
>
> One of the greatest obstacles which confronts the farmer in maintaining a stable income is the hazard of weather.
>
> The crop-insurance program was designed to give the farmer protection against having his income wiped out or greatly reduced by unfavorable weather or some other disaster.
>
> This protection is sorely needed by the small farmers, who in most instances have no financial reserve to tide them over until another crop can be made.

The reason assigned for putting an end to crop insurance is that it was too expensive. It was to be expected that in perfecting a program of such magnitude the Government would have to go to much expense, and it would take several years to give it a fair trial. I do not feel that the Department of Agriculture has been given sufficient time to demonstrate the practicability of crop insurance. Any program involving so many complications and such a great amount of educational work with the farmers cannot be placed on a sustaining or entirely satisfactory basis within a few years.

When the Government first experimented with rural free delivery of mail, there were those who said it was too costly and was not practicable. More recently when we began inaugurating a program of rural electrification there were those who said it was not practicable and would prove too costly.

These and other programs, which at first were declared not feasible, are now recognized as a great blessing to our rural population, and they have been made to work on a practical and satisfactory basis.

If we can make crop insurance work, it will, in my opinion, prove one of the greatest steps ever taken by the Government toward making farming a sound and profitable occupation.

Certainly in these times when the farmer is being urged to produce more and assume greater risks, we should not stop a program which is of such tremendous potential value to them.

I certainly hope that when Congress returns from its recess, funds will be provided to continue this program, which will mean so much to our farmers and at the same time enable agriculture to be placed on a more stable basis than ever before.

SOUNDNESS OF BASIC PRINCIPLES

In view of the action taken by Congress to discontinue Federal crop insurance, it would seem advisable in this report to measure the activities and accomplishments of the Federal crop insurance program against the various concepts upon which it was built. Some of the early theories have worked well in practice; others with a limited degree of success. In December 1936, the President's Committee on Crop Insurance submitted to the President various specific recommendations for a crop-insurance program. Extensive hearings were held by both Houses of Congress before the passage of the Federal Crop Insurance Act on February 16, 1938. The principal concepts as given in the report of the President's Committee and as developed by Congress are as follows:

1. Insurance of crop yields only without insurance of price.
2. Employing the farmer's own average yield as determined from a representative base period as a basis of insurance coverage.
3. Employing the farmer's own loss experience together with the county loss experience in determining the premium rate for the farm.
4. Payment of premiums and indemnities in kind or in the cash equivalent.
5. The insured to carry the first part of the risk through insurance of only a designated percentage of the producer's average yield.
6. Writing of insurance, adjustment of losses, and general local administration through local committees of farmers.
7. Because of public benefits, the Federal Government should bear all overhead cost of administration, including cost of storage, and insured farmers through payment of premiums should bear the cost of indemnities for crop losses.

YIELD INSURANCE

One of the most important features of Federal crop insurance was a guarantee of the yield in bushels of wheat or pounds of cotton rather than a guarantee of an income in dollars. The farmer faces three risks on his crop: They are the yield, the quality, and the price. To

insure a money income would cover all three risks. The price support program, making use of the principle of the Ever-normal Granary and tied in with acreage control and soil conservation, appears to be the most desirable method of approaching the price risk. This leaves the yield risk and quality risk to be carried by the producer or by crop insurance. When the crop insurance program was adopted, it was believed that only protection against the yield risk should be attempted. Data were available for development of yield insurance and few if any data were available for developing a plan of insuring quality. It seemed desirable at the time to first experiment with the insurance of yield before attempting insurance of quality. Actual experience with the program has shown that in many cases protection against loss in yield is inadequate. It now seems quite probable that quality insurance could be developed and tied in with the insurance of yields. Since the price risk would be taken care of by price support programs it seems logical to conclude that crop insurance and price support programs are interdependent if complete assurance of farm income is to be realized.

COVERAGE BASED ON AVERAGE YIELD OF INSURED FARM

Until 1939, when the Government first offered insurance on growing wheat crops, no crop insurance written provided coverage based on a percentage (75 or 50 percent) of the average yield of the insured farm. In previous attempts to insure growing crops, the coverage had been determined on a zone, county, or other geographical-area basis, which meant that all those who insured within such area would have the same coverage or guarantee per acre. The individual-farm basis was selected because it was realized that wide differences in productivity exist between farms in the same zone or county—usually wider differences than exist as between zones or counties.

The use of individual-farm average yields as a basis for insurance was made possible as a result of the collection of a vast amount of individual-farm data gathered in connection with the production adjustment programs of the AAA. Even so, the data were far from complete and no longer applicable in many instances. As a consequence, in establishing the average yields for individual farms, it was necessary to make many appraisals. In making such appraisals, a strong tendency persisted to deviate toward the county average. In other words, yields for low-producing farms were overappraised and those for high-producing farms were underappraised, which, naturally, created a much stronger incentive for insurance to be purchased on the overappraised than on the underappraised farms.

These average yields had to be established not only for farms that were insured but for all farms producing a crop. This was necessary so that all eligible buyers of insurance might know how much protection they could obtain. Each year as new yield data were acquired they were blended into the previous figures in order to improve them and to keep them current. This necessitated the gathering of yield data from all farms every year, which involves checking the accuracy of the information and making appraisals where annual information cannot be obtained.

The establishment of average yields for all farms has been an expensive and difficult task, and gathering of data each year for revising such figures is also difficult and expensive. Perfection has not been

accomplished and probably never will be. It would be simpler and less expensive to use a uniform coverage for all farms in a county or subdivision thereof. Under such a plan, however, the normally low-producing farms would undoubtedly obtain much greater benefits from the insurance than the normally high-producing farms.

DETERMINATION OF PREMIUM RATES FOR INDIVIDUAL FARMS

The initial crop insurance plan stipulated that each farm would have an individual premium rate. The amount of the premium would be the average of the crop-loss experience for the farm and the crop-loss experience for the county in which the farm is located. The crop-loss experience for the farm would be determined on the basis of the yield history for the farm and would reflect the extent to which a grower would have been indemnified for loss had he been insured during the base period. However, his loss experience in the future would probably not be accurately reflected by his crop-loss experience in the past. Spot losses or accidental losses such as are caused by fire, hail, floods, insect infestation, etc., might not be repeated in the future. Conversely such losses might often occur in the future on farms that escaped them in previous years. Moreover, many farmers over a period of years change their farming practices either for better or worse. It was for this reason that the crop-loss experience for the county was given equal weight with the farm experience in determining the premium rate for the farm on the assumption that for certain types of risks the experience of the county reflects better than the experience of the farm the probable future losses on the farm. The premium rates were revised each year, the crop-loss experience for each new additional year being blended into the previous premium rate.

Despite the fact that county loss experience was given half weight in determining the farm premium rate, accidental crop losses in the farm loss experience probably had too great an influence upon the premium rates. To remedy this situation a plan for a schedule of premium rates in each county was devised. Under this plan the same premium rate is applicable for all farms in a county or administrative area classified in the same yield group. Thus all farms with the same average yield have the same premium rate except that where some obvious risk exists, such as flood hazard on low ground, the rate is increased. In some counties, because of material differences in topography, farming practices, or other factors affecting the risk of loss, separate schedules were prepared for the different risk groups.

This plan was used almost universally in connection with wheat for 1943 and in experimental counties with cotton. It is simpler than the original plan and probably as accurate. It cannot be fully evaluated as yet since the 1943 program is not complete.

INSURANCE IN KIND

The principle of insurance in kind was an essential part of the plan for yield insurance. If the crop produced was less than the amount of coverage expressed in units of the commodity, the shortage would be paid to the insured as an indemnity for loss. The premium necessary to cover the risks was also figured in terms of the commodity. The original program was conceived of as one of payment in kind with the use of the cash-equivalent price as an alternative for those who did not desire or found it inconvenient to pay premiums or

receive indemnities in the commodity or in warehouse receipts representing the commodity. Premiums and indemnities, although determined in kind, have generally been settled in the cash equivalent thereof. This is usually more convenient to the insured and to the Corporation. It really is the determination in kind rather than the payment in kind that is essential to yield insurance. As a consequence, the results originally intended are being obtained; yet the most convenient method of paying obligations is being followed.

Cash premiums have been invested in the commodity to permit the Corporation to have on hand each year for the payment of indemnities as many units of the commodity as the aggregate of its premiums. If during the period between determining the cash-equivalent prices of premiums and determining the cash-equivalent price of indemnities the value of the commodity should increase, the cash received for premiums would be insufficient for the payment of as many commodity units of indemnities as there were units of premiums collected. For example, if wheat premiums amounted to one million bushels, collected on the basis of $1 per bushel, there would be available $1,000,000. If, by the date for paying indemnities the price had risen to $1.25 per bushel, $1,000,000 would pay only 800,000 bushels of wheat indemnities. The maintenance of premium reserves in kind by the Corporation has therefore been an important feature for avoiding risks from within-the-year price fluctuations.

Another type of price risk has been that of changes in the market level from year to year. The above example illustrates this type of price risk if different years are used instead of different dates within a crop year. It is in the carrying of sizable premium reserves in the commodity from one year to another that the Ever-Normal Granary feature of Federal crop insurance would become important in that reserves accumulated in good crop years would be carried over to years of poor crops. Up to the present time, however, the Corporation has had no reserve to carry from one year to the next, and as a consequence the Ever-Normal Granary feature has been of little or no significance. Even though a full year's premiums had been carried over, it is doubtful whether the amount involved under present participation would have been important as an Ever-Normal Granary feature.

A number of changes in the method of collecting premiums and paying indemnities have been made from year to year, although the insurance-in-kind principle has in nowise been abandoned. Premiums on the first insurance written, the 1939 winter wheat crop, were collected largely in cash and invested in wheat. It soon became evident that many growers did not insure because they did not have the wheat, cash, or credit with which to finance the premium. This difficulty was effectively remedied before the final date for payment of premiums for 1939 spring wheat insurance by an amendment to the Soil Conservation and Domestic Allotment Act. This amendment authorized the Secretary of Agriculture to make advances to producers out of payments to be earned by them in the conservation program for the purpose of insuring their crops. The advance was made directly to the Federal Crop Insurance Corporation. This plan of paying the premium was no doubt a major factor in increasing the participation. It was still necessary, however, for the Corporation to purchase wheat at the time of the application in order to avoid the

price risk. This was because the amount of the premium in wheat was converted to a dollar obligation before the crop was grown. The purchase and carrying of this wheat involved the payment of handling and storage charges.

Beginning with the 1942 wheat and cotton insurance, a commodity premium note was made a part of the application for insurance. In this note the insured agreed to pay the amount of the premium in kind or its cash equivalent at the maturity of the note which was approximately harvesttime. Under this plan the Corporation did not need to hold actual commodities to avoid price fluctuations except for the period from the maturity of the note until the amount of indemnity was determined in cash. This reduced the expenses of the Corporation materially and made it possible for the insured to pay his premium and collect his indemnity on the basis of the price of wheat or cotton from the same crop. The note bore no interest either before or after maturity.

Beginning with the second year of operation, the Corporation, after approving a claim for indemnity, issued to the insured a certificate of indemnity for a designated amount of the commodity of a specified class and grade. The insured could receive payment immediately, hold the indemnity certificate for sale at a later date, or use the certificate as a basis for a commodity loan. This gave him the same privilege of holding his indemnity wheat or cotton or obtaining a loan thereon as if he had actually produced the commodity. Of course he was required to pay storage costs.

Thus, although the final collection of premiums and payment of indemnities usually occurs in the cash equivalent rather than in kind, the determination of premiums and indemnities in kind has had a number of significant advantages and remains as one of the important features of the Federal Crop insurance program.

LIMITATION ON COVERAGE

The Crop Insurance Act provides that the insurance shall cover not less than 50 percent nor more than 75 percent of the recorded or appraised average yield of the commodity on the insured farm. The upper limit of 75 percent rather than a higher figure was decided upon so that the insured producer would be required to carry the first part of the risk. This, it was believed, would minimize the moral hazard in that it would provide an incentive to produce the best crop possible —in other words, it would be more profitable to produce a crop than to collect an indemnity.

There are circumstances under which this plan does not provide a continuing incentive to produce a crop. After the crop has deteriorated so that the insured is certain of collecting an indemnity, the incentive no longer exists. In fact, if the insured can save some of the costs of production thereafter, he probably would desire to abandon the crop. This is especially true if he can use the land for other crops.

One way to solve this problem would be to provide special adjustments in such cases so that the indemnity would be more in line with the insured's investment in the crop at the time of abandonment and to reflect savings in cost to the grower. This principle was experimented with for American-Egyptian cotton in 1943 on a small scale, and the application of this principle to all cotton insurance was planned for 1944.

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The 1944 wheat insurance program, which never went into effect, provided that loss adjustments should reflect savings in cost where acreage was abandoned. Heretofore, despite the fact that loss adjustment procedures have provided that acreage released for the growing of other crops should be appraised on the assumption that the best possible growing conditions would prevail, the potential yields so appraised have generally been small. On an average they have been less than 1 bushel per acre. This has meant that the Corporation has paid nearly full indemnities to many growers who, in addition to their indemnity, saved the cost of harvesting and had an opportunity to produce another crop. Obviously, this often caused inequity between insured growers and violated the principle that the man who produced the better crop should obtain a total income as large as or larger than that of the man who produced a poorer crop.

To remedy this situation and to give county committees and their adjusters a clearer cut formula to follow, the 1944 wheat insurance contracts provided for certain minimum appraisals, the principal ones being that (1) on wheat acreage released for the purpose of planting another crop or wheat acreage with a thin stand into which other small grain is drilled, the minimum appraisal should be one-half of the coverage per acre minus one-half of the premium rate, and (2) on wheat acreage abandoned at harvesttime the minimum appraised production should be 20 percent of the coverage.

It is believed that this modified plan for adjusting losses would materially reduce the amount of indemnities to be paid. It would be more equitable among insured farmers suffering losses because the indemnity would more truly reflect their actual financial loss.

LOCAL ADMINISTRATION BY COMMITTEES OF FARMERS

The original plan called for the writing of insurance, adjustment of losses, and general local administration by local committees of farmers. The Agricultural Adjustment Administration had such committees in practically all agricultural counties and since crop insurance was to be an integral part of the farm program, it was deemed advisable to use the same committees. There were both advantages and disadvantages in this arrangement.

These committees were already in existence and had offices, equipment, and personnel trained in carrying out action programs. Consequently, no problems of organizing and setting up in business were encountered except the addition of personnel where needed. The committees were in a position to coordinate the crop insurance work with other phases of the general farm program. They had accumulated, in connection with other programs, statistical data on individual farms which were essential in the crop insurance work. Furthermore, it was necessary to determine the farm acreage in wheat or cotton for other programs as well as for crop insurance each year. Consequently, there was much to be gained by utilizing committees that were already established.

There were also some disadvantages. The basic principles of crop insurance were quite different from those of the other farm programs. Crop insurance involved not only the making of payments but also the collection of premiums and administering the program in such a manner that in the long run premiums and payments would balance. Not all of the committeemen fully realized the difference in treat-

ment that was necessary. Not all of them realized the importance of putting their county insurance on a sound financial basis.

While the administration of crop insurance by local committees fully met expectations in many counties and was satisfactory in the majority of cases, some important difficulties were encountered. In some counties crop insurance was considered by the established organization to be of secondary importance to other phases of the farm program and in such instances insufficient time and attention were given to it. Probably because of the lack of active and vigorous interest on the part of the administrative personnel, crop insurance did not flourish in some counties even though it may have received its full proportion of time and effort.

In some counties the administration of crop insurance was in unwilling hands, and a considerable percentage of those responsible for crop insurance have not insured their own crops. With respect to wheat this is shown for county and community committeemen in table 3. For cotton a study completed in one major State shows that in 15 percent of the counties in which insurance was written, no committeeman or adjuster had a crop insurance contract in 1942. In over 31 percent of the counties, no county committeeman signed a contract, and all county committeemen had insurance in only 20 percent of the counties. A few of these county committeemen are not cotton farmers, but less than one-fourth of the community committeemen growing cotton and only a little over one-half of the adjusters growing cotton insured their own crops, as shown by this survey.

TABLE 3.—*Participation by county and community committees, by years, for sample counties of the regions named*[1]

Region	Year	County	Community
		Percent	*Percent*
Great Plains	1939	87	69
	1940	74	56
	1941	78	41
	1942	79	41
Spring Wheat	1939	57	36
	1940	66	37
	1941	72	27
	1942	54	19
Middle-East	1939	82	54
	1940	92	67
	1941	96	76
	1942	96	74
Far West	1940	36	24
	1941	38	31
	1942	33	25
Mountain	1940	33	20
	1941	55	27
	1942	59	33

[1] The figures for the far West may underestimate the effective participation, since some of these county committeemen could not be expected to participate because they did not grow wheat.

The lack of interest and failure of committeemen to participate in crop insurance has had an adverse influence on participation by other farmers. In fact, the number of contracts signed has been directly related to the active interest displayed by committeemen and others working directly with crop insurance. Although the importance of sales work resulting from personal contacts was emphasized and persons administering the program were strongly urged to insure their

own crops before attempting to sell insurance to others, these objectives have not been fully reached.

Another problem causing some difficulty was the fact that crop insurance involved certain principles of salesmanship not common to other phases of the farm program. Committeemen in many counties were slow to recognize that Federal crop insurance was a service which farmers had to buy—that the purchase of it involves a sale. A sale involves money, and few men, especially farmers, are inclined to invest in something without being convinced of the benefits to be received. After this difference was realized between the requirements of obtaining satisfactory participation in the crop insurance program and other phases of the farm program in which the cash advantage is immediate and payment is made to, rather than by, the farmer, greater progress was made by handling crop insurance "sign-up" work separately and on a basis more in line with the fundamental necessity of selling a new business proposition to farmers.

To help generate a more positive policy about "selling" crop insurance, several States have experimented with a sales-commission plan whereby insurance representatives are paid a certain amount for each contract written. It is too early to draw any conclusion as to the effect of this plan on participation, but it does have the advantage of keeping the costs of selling directly in line with the amount of business done, which cannot be said of paying insurance representatives on a per diem and mileage basis.

In many counties the advantages of using committees already established have far offset the disadvantages. The insurance work there has been well administered. In other counties the disadvantages have more than offset the advantages. It appears, therefore, that this plan can be made to work in a satisfactory way if some modifications are made, particularly in those counties or States where the crop insurance work has suffered from neglect or improper administration.

DIVISION OF COSTS BETWEEN THE GOVERNMENT AND INSURED FARMERS

Since the beginning of crop insurance the Federal Government has been carrying the administrative costs, including storage costs. The Federal Government also furnished the capital fund for the Corporation. The insured farmers, through payment of premiums, have been expected to pay the costs of crop losses indemnified. Premium rates were calculated on the basis that the premium income over a period of years would cover indemnities. This principle was set forth in the report of the President's Committee in 1936 and was adopted by Congress when it passed the Federal Crop Insurance Act and subsequent appropriation legislation each year.

The Government's contribution to this system of insurance has been predicated on the public benefits to be derived. The insured farmer is not the only one that receives benefit. Rural communities are dependent on farm trade and are much affected by the ups and downs of farm income. Banks, business firms, and others are affected. It is believed also that the need for public relief would be reduced if farmers could carry protection against loss of their crops.

The amount of money expended for administration of the program each year is shown in table 2. This table also shows that, with economies introduced as experience was gained and with continued increased participation, the cost per farm for administrative expenses

is much less than in the early years. Further reduction is still possible. The largest part of the expenditure is made for field administration of the program through the Agricultural Adjustment Agency. In fact, about two-thirds of the appropriation has been expended for that purpose. The reason for this is apparent when it is realized that insurance is written in about 2,400 counties.

Premium rates were so designed that over a period of years premiums and indemnities for loss would balance. It was recognized that indemnities would exceed premiums in years of widespread crop failure but it was contemplated that part of the premium income would be saved in years of good crops to meet the deficit. The capital fund was to be used as a reserve to absorb the losses in years of widespread crop failure until premiums saved in good years offset the deficit.

Results obtained in 4 years' experience have not been as good as originally anticipated. Table 1 shows the insurance experience by years. Over a period of 4 years in wheat, indemnities have exceeded premiums by about 50 percent; in 1939, by 52 percent; in 1940, by 66 percent; in 1941, by 49 percent; and in 1942, by 21 percent. These were reasonably good crop years for the country as a whole although there were many areas of severe losses even in those years. This is apparent from table 4, which shows 4 years of insurance experience for all States. Heaviest losses have not occurred in what is normally the higher risk wheat area of the Plains States. Losses in 1939 and 1940 were principally in that area as a result of drought, but the losses for 1941 and 1942 were in normally low-risk wheat areas. At this time it appears that heaviest losses for 1943 will also be in normally low-risk areas. In these areas the amount of insurance protection is high and premium rates low and even though the State production may be decreased only slightly, the losses may be many times the premiums collected. It is obvious from this experience that the crop insurance program meets the needs of the low-risk area as well as the high-risk area, a fact that was not fully recognized when the program was inaugurated.

TABLE 4.—*Wheat crop insurance experience by States as of June 30, 1943*

State and crop year	Farms insured [1]		Indemnities	Area insured	Insured production	Premiums collected	Indemnities	Premiums less indemnities	Loss ratio [2]
	Insurance written	Insurance in force							
Soft Red Winter:									
New York:	*Number*	*Number*	*Number*	*Acres*	*Bushels*	*Bushels*	*Bushels*	*Bushels*	
1939		652	58	8,746	149,854	5,038	5,226	−188	1.04
1940	911	878	42	9,187	132,649	5,858	2,153	3,705	.37
1941	1,040	966	159	10,812	171,958	7,088	9,243	−2,155	1.30
1942	2,068	1,897	74		337,803	12,904	4,068	8,836	.32
1943	2,407								
Total		4,393	333		792,264	30,888	20,690	10,198	.67
New Jersey:									
1939		29	3	380	5,778	190	170	20	.89
1940	112	109	4	1,206	17,983	594	264	330	.44
1941	165	155	23	1,903	30,717	958	1,299	−341	1.36
1942	286	272	13		47,409	1,452	481	971	.33
1943	287								
Total		565	43		101,887	3,194	2,214	980	.69

See footnotes at end of table.

TABLE 4.—*Wheat crop insurance experience by States as of June 30, 1943*—Con.

State and crop year	Farms insured [1]		Indemnities	Area insured	Insured production	Premiums collected	Indemnities	Premiums less indemnities	Loss ratio [2]
	Insurance written	Insurance in force							
Soft Red Winter—Continued.									
Pennsylvania:	*Number*	*Number*	*Number*	*Acres*	*Bushels*	*Bushels*	*Bushels*	*Bushels*	
1939		2,299	152	30,437	448,933	15,829	7,709	8,120	.49
1940	5,916	5,788	667	68,361	979,386	36,141	30,725	5,416	.85
1941	7,521	7,173	1,162	83,159	1,234,562	44,513	57,766	−13,253	1.30
1942	7,426	7,070	1,295		1,137,095	42,534	64,822	−22,288	1.52
1943	9,036								
Total		22,330	3,276		3,799,976	139,017	161,022	−22,005	1.16
Ohio:									
1939		10,252	1,908	123,439	1,737,397	131,288	101,184	30,104	.77
1940	28,796	27,668	2,418	314,101	4,230,813	304,725	77,453	227,272	.25
1941	33,988	31,256	3,221	349,486	4,805,140	289,715	110,628	179,087	.38
1942	43,880	40,001	7,813		5,346,283	326,355	350,639	−24,284	1.07
1943	49,710								
Total		109,177	15,360		16,119,633	1,052,083	639,904	412,179	.61
Indiana:									
1939		11,156	2,574	163,625	2,020,045	141,634	148,728	−7,094	1.05
1940	28,433	26,884	3,085	332,455	4,048,596	280,191	123,915	156,276	.44
1941	35,412	30,540	1,089	371,705	4,588,724	301,540	35,763	265,777	.12
1942	37,108	32,122	18,928		4,512,689	288,408	1,359,572	−1,071,164	4.71
1943	47,659								
Total		100,702	25,676		15,170,054	1,011,773	1,667,978	−656,205	1.65
Illinois:									
1939		12,189	970	267,107	2,912,114	185,194	58,294	126,900	.31
1940	14,926	14,254	792	290,571	3,231,603	215,341	36,047	179,294	.17
1941	38,052	32,894	5,547	629,845	7,046,678	417,548	443,116	−25,568	1.06
1942	45,334	29,751	18,367		5,152,042	309,853	1,867,559	−1,557,706	6.03
1943	68,549								
Total		89,088	25,676		18,342,437	1,127,936	2,405,016	−1,277,080	2.13
Michigan:									
1939		5,057	934	49,216	729,663	30,633	39,481	−8,848	1.29
1940	15,950	15,173	1,536	134,212	1,901,231	86,846	57,965	28,881	.67
1941	15,314	13,193	2,116	120,026	1,738,964	83,082	83,496	−414	1.00
1942	35,122	29,178	5,311		3,398,517	177,819	205,463	−27,644	1.16
1943	36,918								
Total		62,601	9,897		7,768,375	378,380	386,405	−8,025	1.02
Missouri:									
1939		15,735	2,837	343,021	3,264,200	197,328	171,203	26,125	.87
1940	21,666	20,116	2,975	365,335	3,500,111	244,478	140,693	103,785	.58
1941	25,187	20,867	13,550	384,354	3,765,241	267,574	1,639,887	−1,372,313	6.13
1942	42,174	23,575	13,041		3,562,193	269,991	1,248,199	−978,208	4.62
1943	48,603								
Total		80,293	32,403		14,091,745	979,371	8,199,982	−2,220,611	3.27
Delaware:									
1939		79	14	1,765	22,208	859	668	191	.78
1940	456	451	83	8,888	102,221	4,209	6,269	−2,060	1.49
1941	631	575	68	10,816	121,236	4,993	4,289	704	.86
1942	804	729	49		148,143	6,132	1,974	4,158	.32
1943	418								
Total		1,834	214		393,808	16,193	13,200	2,993	.82
Maryland:									
1939		985	151	22,992	290,905	10,905	7,103	3,802	.65
1940	1,274	1,256	160	32,744	410,802	15,061	9,977	5,084	.66
1941	1,746	1,689	152	39,250	499,859	18,251	9,758	8,493	.53
1942	2,475	2,487	276		646,452	23,850	18,137	5,713	.76
1943	2,328								
Total		6,417	739		1,848,018	68,067	44,975	23,092	.66
Virginia:									
1939		916	78	15,356	189,239	7,363	3,811	3,552	.52
1940	1,176	1,164	125	19,969	243,664	9,508	4,868	4,640	.51
1941	2,557	2,481	468	42,578	519,461	20,536	20,427	109	.99
1942	2,799	2,707	208		488,627	19,193	10,984	8,209	.57
1943	1,780								
Total		7,268	879		1,440,991	56,600	40,090	16,510	.71

See footnotes at end of table.

TABLE 4.—*Wheat crop insurance experience by States as of June 30, 1943*—Con.

State and crop year	Farms insured [1]		Indemnities	Area insured	Insured production	Premiums collected	Indemnities	Premiums less indemnities	Loss ratio [2]
	Insurance written	Insurance in force							
Soft Red Winter—Continued.									
West Virginia:	*Number*	*Number*	*Number*	*Acres*	*Bushels*	*Bushels*	*Bushels*	*Bushels*	
1939		1		37	402	19		19	
1941	94	88	15	1,416	16,846	892	897	−5	1.01
1942	567	511	103		82,166	3,811	5,299	−1,488	1.39
1943	941								
Total		600	118		99,414	4,722	6,196	−1,474	1.31
North Carolina:									
1940	202	197	23	1,947	19,413	930	362	568	.39
1941	458	447	39	5,475	59,383	2,543	1,320	1,223	.52
1942	2,008	1,866	134		155,171	7,583	4,093	3,490	.54
1943	3,731								
Total		2,510	196		233,967	11,056	5,775	5,281	.52
Kentucky:									
1940	979	945	171	16,499	169,431	14,692	9,691	5,001	.66
1941	634	605	29	10,974	112,610	8,939	999	7,940	.11
1942	947	857	256		128,461	11,034	14,608	−3,574	1.32
1943	2,983								
Total		2,407	456		410,502	34,665	25,298	9,367	.73
Tennessee:									
1940	248	238	34	4,767	43,858	2,747	1,383	1,364	.50
1941	210	188	18	3,066	26,223	1,618	473	1,145	.29
1942	1,923	1,677	124		131,688	7,931	4,066	3,865	.51
1943	1,603								
Total		2,103	176		201,769	12,296	5,922	6,374	.48
Arkansas:									
1941	38	38	17	734	7,582	352	1,445	−1,093	4.11
1942	39	39	18		6,008	314	1,952	−1,638	6.22
1943	49								
Total		77	35		13,590	666	3,397	−2,731	5.10
Hard Red Winter:									
Iowa:									
1939		4,645	1,782	72,575	894,064	57,223	127,312	−70,089	2.22
1940	7,251	6,515	705	100,275	1,228,446	97,553	47,580	49,973	.49
1941	7,569	6,093	5,145	95,180	1,134,645	88,202	689,616	−601,414	7.82
1942	10,308	6,689	1,087		1,187,231	108,856	89,576	19,280	.82
1943	7,440								
Total		23,942	8,719		4,444,386	351,834	954,084	−602,250	2.71
Nebraska:									
1939		13,197	8,710	426,982	3,922,955	495,556	1,277,597	−782,041	2.58
1940	57,095	53,924	31,102	1,391,239	13,162,451	1,972,888	5,130,595	−3,157,707	2.60
1941	63,250	57,272	44,365	1,504,078	13,519,901	2,369,065	7,080,657	−4,711,592	2.99
1942	73,773	67,286	4,783		12,871,369	2,030,787	365,296	1,665,491	.18
1943	47,393								
Total		191,679	88,960		43,476,676	6,868,296	13,854,145	−6,985,849	2.02
Kansas:									
1939		14,887	5,742	882,696	7,328,343	777,080	1,746,943	−969,863	2.25
1940	60,287	58,398	25,003	3,070,540	23,893,650	3,694,182	8,298,987	−4,604,805	2.25
1941	60,884	53,991	20,874	2,679,140	19,814,409	3,074,047	2,796,662	277,385	.91
1942	58,849	42,352	15,473		11,233,185	1,274,772	1,768,795	−494,023	1.39
1943	49,777								
Total		169,628	67,092		62,269,587	8,820,081	14,611,387	−5,791,306	1.66
Oklahoma:									
1939		8,635	2,997	463,873	4,016,681	270,416	477,481	−207,065	1.77
1940	23,258	22,520	7,642	1,066,247	8,586,466	879,276	1,277,841	−398,565	1.45
1941	25,062	22,852	10,154	943,406	7,530,407	751,284	1,236,001	−484,717	1.65
1942	28,242	23,925	8,089		6,879,295	657,573	968,664	−311,091	1.47
1943	21,667								
Total		77,932	28,882		27,012,849	2,558,549	3,959,987	−1,401,438	1.55

See footnotes at end of table.

TABLE 4.—*Wheat crop insurance experience by States as of June 30, 1943*—Con.

State and crop year	Farms insured [1]		Indemnities	Area insured	Insured production	Premiums collected	Indemnities	Premiums less indemnities	Loss ratio [2]
	Insurance written	Insurance in force							
Hard Red Winter—Continued.	*Number*	*Number*	*Number*	*Acres*	*Bushels*	*Bushels*	*Bushels*	*Bushels*	
Texas:									
1939	----	3,677	2,362	346,912	2,528,065	396,019	1,017,657	−621,638	2.57
1940	11,022	10,858	5,383	811,158	5,189,197	1,069,272	1,649,525	−580,253	1.54
1941	10,197	9,377	5,583	668,341	4,114,147	958,515	1,789,615	−831,100	1.87
1942	11,448	9,835	6,137	----	3,026,924	600,408	1,055,607	−455,199	1.76
1943	13,284	----	----	----	----	----	----	----	----
Total	----	33,747	19,465	----	14,858,333	3,024,214	5,512,404	−2,488,190	1.82
Wyoming:									
1939	----	321	235	23,403	207,101	29,071	84,035	−54,964	2.89
1940	1,273	1,188	856	79,436	561,466	120,852	271,458	−150,606	2.25
1941	1,532	1,293	108	73,271	549,918	126,680	17,264	109,416	.14
1942	954	742	132	----	258,448	56,029	17,153	38,876	.31
1943	705	----	----	----	----	----	----	----	----
Total	----	3,544	1,331	----	1,567,933	332,632	389,910	−57,278	1.17
Colorado:									
1939	----	1,429	761	70,520	580,273	78,215	187,356	−109,141	2.40
1940	3,706	3,491	1,958	155,881	1,221,281	247,776	465,490	−217,714	1.88
1941	5,881	4,975	759	209,908	1,560,422	353,291	103,393	249,898	.29
1942	5,512	4,150	732	----	923,963	179,018	87,447	91,571	.49
1943	4,793	----	----	----	----	----	----	----	----
Total	----	14,045	4,210	----	4,285,939	858,300	843,686	14,614	.98
New Mexico:									
1939	----	111	72	8,353	71,532	12,153	30,605	−18,452	2.52
1940	61	57	44	7,247	37,104	11,731	21,487	−9,756	1.83
1941	260	232	94	18,521	112,963	31,929	55,632	−23,703	1.74
1942	450	392	70	----	126,680	37,423	6,356	31,067	.17
1943	475	----	----	----	----	----	----	----	----
Total	----	792	280	----	348,279	93,236	114,080	−20,844	1.22
Utah:									
1939	----	452	160	32,707	513,804	22,350	63,319	−40,969	2.83
1940	682	643	137	31,641	422,797	25,919	15,201	10,718	.59
1941	3,526	2,985	367	66,624	892,456	60,952	24,379	36,573	.40
1942	6,068	4,481	573	----	803,156	48,209	70,040	−21,831	1.45
1943	4,584	----	----	----	----	----	----	----	----
Total	----	8,561	1,237	----	2,632,213	157,430	172,939	−15,509	1.10
Hard Red Spring and Durum:									
Wisconsin:									
1939	----	183	119	1,193	15,578	1,215	6,500	−5,285	5.35
1940	565	537	96	3,107	37,424	2,941	3,109	−168	1.06
1941	709	640	339	3,468	41,099	3,817	11,615	−7,798	3.04
1942	2,925	2,158	189	----	135,430	12,664	6,500	6,164	.51
1943	2,060	----	----	----	----	----	----	----	----
Total	----	3,518	743	----	229,531	20,637	27,724	−7,087	1.34
Minnesota:									
1939	----	10,211	2,616	240,592	2,198,867	170,442	155,041	15,401	.91
1940	21,485	19,604	2,017	381,756	3,302,857	317,043	128,054	188,989	.40
1941	15,565	13,578	5,689	282,794	2,479,549	226,256	404,643	−178,387	1.79
1942	21,888	17,791	1,430	----	2,945,720	265,142	80,288	184,854	.30
1943	17,394	----	----	----	----	----	----	----	----
Total	----	61,184	11,752	----	10,926,993	978,883	768,026	210,857	.78
North Dakota:									
1939	----	28,091	10,240	1,897,370	12,308,941	1,949,989	1,652,748	297,241	.85
1940	31,657	30,448	11,109	1,971,703	11,289,677	1,833,703	2,039,857	−206,154	1.11
1941	19,778	18,938	972	1,248,796	6,967,617	1,046,826	193,276	853,550	.18
1942	14,502	13,711	171	----	3,960,435	495,973	25,462	470,511	.05
1943	12,226	----	----	----	----	----	----	----	----
Total	----	91,188	22,492	----	34,526,670	5,326,491	3,911,343	1,415,148	.73
South Dakota:									
1939	----	10,644	7,638	496,726	2,796,008	728,938	1,592,739	−863,801	2.18
1940	21,413	19,446	10,186	717,109	3,745,360	1,046,343	1,618,055	−571,712	1.55
1941	15,246	12,585	3,848	502,520	2,584,078	846,780	537,195	309,585	.63
1942	12,911	9,678	908	----	1,390,241	437,229	114,535	322,694	.26
1943	6,209	----	----	----	----	----	----	----	----
Total	----	52,353	22,580	----	10,515,687	3,059,290	3,862,524	−803,234	1.26

See footnotes at end of table.

TABLE 4.—*Wheat crop insurance experience by States as of June 30, 1943*—Con.

State and crop year	Farms insured [1]		Indemnities	Area insured	Insured production	Premiums collected	Indemnities	Premiums less indemnities	Loss ratio [2]
	Insurance written	Insurance in force							
Hard Red Spring and Durum—Continued.									
Montana:	*Number*	*Number*	*Number*	*Acres*	*Bushels*	*Bushels*	*Bushels*	*Bushels*	
1939		5,200	1,749	523,634	4,425,554	655,925	681,177	−25,252	1.04
1940	4,138	3,994	1,216	349,924	2,415,537	512,453	367,278	145,175	.72
1941	3,303	3,009	288	263,592	1,977,124	415,639	59,711	355,928	.14
1942	3,156	2,669	163		1,427,551	265,861	63,499	202,362	.24
1943	2,950								
Total		14,872	3,416		10,245,766	1,849,878	1,171,665	678,213	.63
White:									
Idaho:									
1939		1,708	235	127,679	2,041,709	76,629	76,304	325	1.00
1940	6,873	6,334	817	178,128	2,898,651	132,873	99,331	33,542	.75
1941	11,111	9,430	1,328	279,407	4,502,356	204,768	378,178	−173,410	1.85
1942	11,295	8,087	739		3,660,853	168,202	153,256	14,946	.91
1943	6,726								
Total		25,559	3,119		13,103,569	582,472	707,069	−124,597	1.21
Arizona:									
1941	211	140	99	4,357	70,637	2,450	29,559	−27,109	12.06
1942	414	183	38		114,149	4,222	4,044	178	.96
1943	207								
Total		323	137		184,786	6,672	33,603	−26,931	5.04
Nevada:									
1939		38	19	724	15,327	549	3,526	−2,977	6.42
1940	107	104	54	1,851	36,592	1,929	5,469	−3,540	2.84
1941	109	102	20	1,571	32,616	1,913	1,607	306	.84
1942	97	92	17		25,745	1,594	1,930	−336	1.21
1943	96								
Total		336	110		110,280	5,985	12,532	−6,547	2.09
Washington:									
1939		1,332	239	166,125	2,261,124	86,555	86,789	−234	1.00
1940	3,625	3,453	778	378,706	5,313,926	225,977	186,261	39,716	.82
1941	4,518	3,878	463	372,158	5,465,013	230,632	118,822	111,810	.52
1942	5,661	4,389	268		5,815,555	215,035	40,779	174,256	.19
1943	4,838								
Total		13,052	1,748		18,855,618	758,199	432,651	325,548	.57
Oregon:									
1939		662	188	91,056	1,370,679	62,284	101,107	−38,823	1.62
1940	2,012	1,973	462	293,755	3,646,449	228,369	146,798	81,571	.64
1941	5,853	4,657	1,303	276,799	4,022,975	216,240	155,695	60,545	.72
1942	6,098	4,015	580		3,378,895	160,746	66,232	94,514	.41
1943	4,789								
Total		11,307	32,53		12,418,998	667,639	469,832	197,807	.70
California:									
1939		1,002	389	111,149	1,558,732	73,428	252,087	−178,659	3.43
1940	2,155	1,988	1,082	164,889	2,263,482	154,397	624,875	−470,478	4.05
1941	3,329	2,210	1,299	174,733	2,197,864	163,758	732,752	−568,994	4.47
1942	4,536	2,684	831		2,617,578	241,095	423,505	−182,410	1.76
1943	3,048								
Total		7,884	3,601		8,637,656	632,678	2,033,219	−1,400,541	3.21

[1] Includes duplication where both landlord and tenant are insured.
[2] Ratio of indemnities to premiums.

The losses during 1939 and 1940 resulted largely from drought in the hard winter wheat area of the Plains States. Losses in 1941 were principally from winter-kill in the area from central Nebraska to central Illinois. The losses in 1942 were largely in the southern part of the Corn Belt States and resulted from excess moisture with poor planting conditions in the fall, winter-kill, and poor weather conditions for finishing the crop. The principal causes of loss by States for the 3 years, 1940–42, are shown in table 5.

TABLE 5.—*Indemnified losses, percentage caused by various hazards on insured wheat crops, 1940, 1941, and 1942*

Wheat Area and State[1]	Drought			Winter-kill			Excessive moisture			Hail			Rust[2]			Flood			Hot winds			Blown-out			Frost		
	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942
Soft red winter:																											
New York	7	55	4	46	31	29	19	2	28	----	1	----	----	----	----	22	3	5	----	----	----	----	----	----	----	----	----
New Jersey	----	24	12	15	51	60	61	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----
Pennsylvania	7	50	4	57	30	16	9	5	39	----	4	2	----	----	----	3	----	4	----	----	----	----	1	----	----	----	----
Ohio	22	28	2	22	49	48	24	2	15	----	6	2	----	----	2	10	4	3	----	----	----	----	----	----	----	6	1
Indiana	16	33	1	13	49	58	7	2	3	----	2	----	34	1	----	16	1	1	----	----	----	----	1	----	----	2	----
Illinois	45	8	----	11	69	63	4	----	21	----	----	----	10	1	----	6	1	5	----	----	----	----	----	----	----	----	----
Michigan	15	10	6	30	74	72	29	3	12	4	----	1	10	4	----	6	2	4	----	----	----	----	----	1	----	2	----
Missouri	42	9	----	10	80	36	----	----	20	----	----	1	20	1	2	----	4	37	----	----	----	----	----	----	----	4	----
Delaware	14	56	87	----	4	----	39	40	5	9	----	1	16	----	----	----	----	2	----	----	----	----	----	----	----	----	----
Maryland	3	42	37	22	22	4	10	11	39	----	7	1	----	----	----	----	3	----	----	----	----	----	----	----	----	----	----
Virginia	----	59	29	15	28	12	25	7	36	27	1	5	----	----	----	10	2	7	----	----	----	----	----	----	8	----	1
West Virginia	----	31	3	----	66	16	----	----	66	----	----	----	----	3	2	----	----	5	----	----	----	----	----	----	----	----	----
North Carolina	47	44	45	16	----	3	----	36	14	----	6	4	9	----	7	----	5	9	----	----	----	----	----	----	22	2	----
Kentucky	47	73	2	12	15	13	7	1	42	----	2	1	----	----	7	31	----	4	----	----	----	----	----	----	----	----	----
Tennessee	8	61	10	71	10	46	6	29	9	----	----	12	----	----	7	----	----	2	----	----	----	----	----	----	----	----	----
Arkansas	----	13	----	----	28	2	----	1	47	----	----	----	----	34	51	----	23	----	----	----	----	----	----	----	----	----	----
Hard red winter:																											
Iowa	28	3	1	----	92	4	----	----	27	----	----	3	12	----	----	6	----	37	----	----	----	----	----	----	----	----	----
Nebraska	90	2	1	----	92	10	----	----	5	4	2	47	----	----	2	----	----	12	----	----	----	----	----	----	----	----	----
Kansas	80	3	----	3	60	20	----	3	35	----	8	8	2	2	----	----	4	10	----	----	----	7	2	3	----	----	----
Oklahoma	62	----	----	12	8	3	----	46	16	----	5	10	6	19	----	----	5	5	----	----	----	10	4	2	----	----	----
Texas	71	4	5	----	----	----	----	27	1	3	11	6	----	18	----	----	----	1	----	----	----	18	28	----	----	----	----
Wyoming	68	2	6	----	41	3	----	----	----	13	35	81	----	1	----	----	3	----	8	----	1	----	1	----	6	----	----
Colorado	66	10	5	4	7	3	----	1	2	12	64	72	----	2	1	----	1	1	----	----	----	7	3	2	----	1	----
New Mexico	40	27	21	----	----	1	----	----	5	3	5	35	----	9	----	----	----	1	----	----	----	29	56	7	----	----	----
Utah	84	5	14	----	6	61	4	6	2	----	5	3	----	50	1	----	3	----	----	----	----	----	----	----	----	7	3
Hard red spring and durum:																											
Wisconsin	5	10	1	17	50	60	5	----	18	18	1	5	45	29	3	----	----	11	----	----	----	----	----	1	----	----	----
Minnesota	55	2	1	3	37	27	3	15	36	18	11	7	----	14	4	----	11	14	----	----	----	----	----	----	5	----	1
North Dakota	79	2	----	----	----	----	----	40	16	9	39	31	----	----	----	----	13	20	----	----	----	----	----	1	4	----	----
South Dakota	80	55	1	----	15	2	----	----	4	12	18	65	----	----	2	----	----	9	----	----	----	----	----	3	----	----	----
Montana	44	29	3	----	6	3	----	1	1	29	36	88	----	----	----	----	----	----	----	2	----	----	----	----	----	----	----
White:																											
Idaho	47	1	4	----	2	8	9	51	19	8	11	32	4	27	2	----	----	3	14	----	----	----	----	1	----	----	4
Arizona	----	----	25	----	----	----	----	----	----	----	1	3	----	91	----	----	----	----	----	----	----	----	----	----	----	6	7
Nevada	8	----	5	----	9	2	----	6	----	7	----	----	75	42	----	----	6	6	----	----	6	----	----	----	----	34	18
Washington	67	----	9	----	----	3	----	39	6	9	14	8	----	6	1	----	----	2	4	----	1	----	----	----	----	5	5
Oregon	64	4	9	----	2	10	6	28	21	3	8	3	----	16	2	----	----	1	10	----	3	----	----	1	----	4	13
California	----	----	2	----	----	----	19	65	39	----	----	----	54	19	----	20	13	38	----	----	----	----	----	----	----	----	1
United States	75.5	5.3	1.5	2.3	57.8	30.7	0.9	10.9	17.8	3.9	5.5	7.3	3.0	5.9	0.8	0.7	2.5	10.3	0.3	(10)	0.1	4.6	3.4	0.8	0.5	(10)	0.4

Wheat area and State [1]	Grasshoppers			Chinch bugs			Hessian fly			Cutworms [3]			Smut			Scab and blight			Miscellaneous			1940	1941	1942
	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	1940	1941	1942	Loss (in bushels)	Loss (in bushels)	Loss (in bushels)
Soft red winter:																								
New York								1	1						22				6	7	11	2,153	9,047	4,049
New Jersey									21				24		4					25	3	264	1,298	481
Pennsylvania							13		28										11	10	7	30,725	57,063	63,641
Ohio					1	1			20							13		1	9	4	5	77,453	110,354	348,866
Indiana					1			1	36					1		9			5	6	1	123,915	35,420	1,351,567
Illinois				12		1	3	16	8										9	5	2	36,047	441,563	1,863,031
Michigan									1					1					6	4	3	57,965	83,102	202,969
Missouri				22					3										6	2	1	140,693	1,636,692	1,240,701
Delaware									1							12			10		4	6,269	3,013	1,974
Maryland							8	3	5		4					43			14	8	14	9,977	9,689	17,917
Virginia																9		2	6	3	8	4,868	20,053	9,744
West Virginia									1									4			3		897	5,282
North Carolina						1		6					6		4					1	13	362	1,300	3,941
Kentucky									13										3	9	18	9,691	999	14,118
Tennessee																			15		14	1,383	473	4,057
Arkansas																				1	0		1,444	1,952
Hard red winter:																								
Iowa				50	1	28		2											4	2		47,580	684,457	88,767
Nebraska						11		2	6			2							6	2	4	5,130,595	7,073,624	365,212
Kansas					1	2		14	19										8	3	3	8,298,987	2,792,381	1,766,357
Oklahoma					1						3								10	9	[4] 64	1,277,841	1,235,919	968,034
Texas			1								2	1							8	10	[5] 85	1,649,525	1,777,867	1,052,587
Wyoming			1								5								5	12	8	271,458	17,261	17,153
Colorado											6								11	5	14	465,490	102,360	88,626
New Mexico			1							22	2	11							6	1	18	21,487	55,496	6,135
Utah			1								2				3				12	16	12	15,201	24,416	70,030
Hard red spring and durum:																								
Wisconsin																			10	10	1	3,109	11,560	6,371
Minnesota	6																	1	10	10	9	128,054	403,980	79,698
North Dakota	4											1						1	4	6	[6] 30	2,039,857	192,994	25,477
South Dakota	4	8	6																4	4	8	1,618,221	535,912	113,516
Montana	20	5	1								4	1							7	17	3	367,278	58,522	63,024
White:																								
Idaho			1									1			7				18	8	18	99,899	377,836	153,233
Arizona			4																	2	[7] 61		29,559	4,044
Nevada	3														20				7	3	[8] 43	5,469	1,606	1,930
Washington			1								1	5			1				20	35	[9] 58	186,261	117,130	40,624
Oregon	17		2					13	7			1								25	27	146,798	155,579	66,292
California																			7	3	20	624,875	732,533	423,394
United States	1.1	[10]	0.3	0.3	[10]		[10]	3.	10.6	[10]	[10]	0.2	[10]	[10]	0.2	0.1	[10]	0.1	7.1	5.1	[11] 17.6	22,899,750	18,793,399	10,534,794

[1] Based on principal class of wheat grown.
[2] Includes all rust.
[3] Includes wireworms and army worms.
[4] Includes 59.8 percent for green bugs.
[5] Includes 82.2 percent for green bugs.
[6] Includes 24.7 percent for weeds.
[7] Includes 28.1 percent for weather (not identified) and 20.3 percent game
[8] Includes 24.1 percent for animals (not identified) and 11.7 percent rotting seed
[9] Includes 12.9 percent for fire—9.2 percent weather (not identified) and 13.3 percent heat.
[10] Less than 0.1 percent.
[11] Includes 13.7 percent for green bugs.

One of the principal reasons why indemnities have exceeded premiums has been adverse selection of risks. If the applicant for insurance has some information about the chances for a crop before he applies for insurance, the Corporation is at a disadvantage. Although the individual may be wrong in his decision of whether or not to take insurance because of certain factors affecting the chances for a crop, the effect in the aggregate is adverse to the Corporation. Some of the factors that the applicant may consider in his choice of whether to take insurance or not are the location of the fields and the quality of the soil where the wheat crop is to be planted, the effect of the preceding crop on fertility and productivity of the land, and the amount of soil moisture available before seeding. If the insurance contract were written a year or two in advance, the insured and the insurer would be on a more equal basis with regard to the information concerning factors that might affect the crop. The Federal Crop Insurance Act, however, prohibited the use of a long-term contract for the first 3 years and limited the operation to annual contracts. Under the annual contract various things were done to reduce the amount of adverse selection. Applicants were required to insure the crop on all farms in the county in which they had or were to have an interest at the time of planting. Thus, there was some restriction on their selecting only those of their farms for insurance on which there was the greatest possibility of loss within the year. Furthermore, closing dates for acceptance of applications were advanced to as early a date as practicable before normal seeding time and no application was acceptable after seeding began.

In the fall of 1939 and 1940 lack of soil moisture prior to seeding time in the hard winter wheat areas of the Plains States stimulated the sign-up for insurance. Losses were heavy in those years because of drought. In subsequent years when soil moisture became more plentiful the sign-up in this area was much lighter. As a result, in those years when the crop was good and losses were small, the participation was not large enough to recoup out of premiums as much of the previous losses as would have been recovered had participation remained high. An illustration of this is given in table 6 for a county in western Kansas.

TABLE 6.—*Effect of favorable crop prospects on succeeding years' participation as shown by data from a representative county in western Kansas*

Crop year	Farms insured	Indemnities	Premiums	Indemnities	Premiums less indemnities	Cumulative balance	Loss Ratio	County wheat yield
	Number	*Number*	*Bushels*	*Bushels*	*Bushels*	*Bushels*		*Bushels*
1939	25	25	2,576	12,932	−19,356	−19,356	5.02	1.4
1940	381	335	48,769	160,024	−111,255	−130,611	3.28	3.6
1941	284	25	36,715	3,788	32,927	−97,684	.10	17.5
1942	72	5	6,386	748	5,638	−92,046	.12	18.3
1943	31							

Exceedingly large crops were produced in this county in 1941, 1942, and 1943, although the data are not yet available for 1943. With such yields the county saved about 90 percent of its premiums in 1941 and 1942 and the prospects are that it will do about the same in 1943. If participation had not fallen off and the premiums during

the last 3 years had been as high as in 1940, the saving of 90 percent of the premiums would just about have written off the deficit. In fact, if the volume of insurance in 1941 and 1942 in the Plains States had been as high as in 1940, it is estimated that the total net loss sustained by the Corporation during the first 4 years would have been reduced by about 5 million bushels.

The use of the 3-year term contract, adopted in 1943, will be a substantial help in eliminating selectivity as a cause of excess loss. Adverse selection cannot ever be eliminated entirely, but it might be reduced to such a point that the losses could be covered by the premium rates.

The fact that losses in the last 3 years occurred for the most part in the normally low-risk areas east of the Great Plains is significant in several respects. That was the area in which the greatest increase in insurance occurred in those years. Although it is probable that those who insured did not foresee the chances for a poor crop, the adverse selection resulted more from the fact that business fell off in the area where good crops were produced than from the fact that it increased in the area of poor crops. In the area where the losses occurred coverages are high and premium rates relatively low. Serious crop damage results in indemnities many times the size of the premiums collected. For example, there were 16 counties in 1942 that paid indemnities more than 10 times as large as the amount of premiums collected. The plan for limiting indemnities when the insured abandons his acreage and thus saves part of the costs of production, as described on page 10, would materially reduce such high loss ratios.

It was often predicted that there would be little insurance written in these low-risk areas because losses were infrequent and seldom large. This has not proved to be the case. The proportion of wheat farms insured is relatively heavier at the present time in these areas than in the higher risk areas, indicating that crop insurance is as well adapted to these areas as to the high-risk areas.

Numerous improvements have been made and planned to reduce the spread between premiums and indemnities. The effect of some of these, such as the term contract, for instance, has not yet been felt. Premium rates in general have been increased—not to the level of losses actually experienced but toward a level to which it is believed the losses can be reduced through improvements that have been or were to be made. To have increased premiums to the level of past losses would have driven many of the best risks out of the program and rates would still have been too low. Only those with the most to gain from the protection would then take insurance, and participation would be permanently limited to only a small proportion of the producers. It was considered the more desirable course to try to serve all producers by attempting to close the gap between premiums and indemnities by working from both ends; i. e., by reducing excessive indemnities by administrative improvements and by raising premiums to make up the difference.

The losses during the first year of cotton crop insurance were about 166 percent of the premiums. Although the yield for the country as a whole was good, insurance losses were heavy in the southeastern part of the Belt and in Texas, Louisiana, and Oklahoma. It is believed that changes proposed for cotton insurance described elsewhere in this report relative to restricting indemnities to the

amount of investment in the crop at the time of loss would go a long way toward reducing insurance losses on cotton.

CROP INSURANCE IN 1943

COTTON

During the fiscal year 1943 the Corporation completed its first year of insurance on cotton and wrote new contracts on approximately 177,000 cotton farms for the second year. While the national average cotton yield in 1942 was the highest on record, adjusting and settling of unusual and widespread losses was the largest task of the fiscal year in connection with insurance of the 1942 cotton crop. Although 3 years of experience in the settlement of wheat losses was of substantial value, various new problems were encountered in cotton. The pressure of war work on county committees, the effect on production of labor and materiel shortages due to war conditions, and the usual difficulty of obtaining uniformity in applying a new procedure to a new phase of work were problems which will be faced with a much greater measure of confidence in adjusting and settling losses on the 1943 cotton crop.

Upon extension of Federal crop insurance to cotton in June 1941, plans which had already been developed for writing insurance on cotton crops along the same general lines as for wheat were immediately put into effect. Consequently, the insurance of cotton and wheat in 1942 differed only to the extent that inherent characteristics of the two crops required them to be different. The basic principles applicable to both wheat and cotton insurance are that (1) anyone who has an interest in a wheat or cotton crop as owner, landlord, tenant, or sharecropper may apply for insurance (based on either 50 or 75 percent of the average yield) on his interest in the crop; (2) all applicants agree to insure the wheat or cotton crop on all of the acreage in the county in which they have an interest at the time of planting; (3) the insurance covers essentially all unavoidable yield hazards but does not cover neglect, malfeasance, or poor farming practices on the part of the insured, loss by theft, or damage to quality; (4) insurance attaches when the crop is planted; (5) all premiums are paid by means of a commodity note representing the number of bushels of wheat or pounds of cotton due as premiums; (6) the county committee accepts applications on behalf of the Corporation, subject to confirmation by the Corporation; and (7) all indemnities are paid by the issuance of a certificate of indemnity which may be surrendered to the Corporation for cash or used instead of the commodity for a loan from the Commodity Credit Corporation if loans are available.

One significant difference in insuring the two crops is that cotton has a cottonseed byproduct without the coverage of which insurance would not be on a comparable basis with wheat. Since farm data were not available for the development of an actuarial basis for cottonseed insurance, it was necessary to offer protection against losses in seed in terms of lint. Under the 1942 program this was done by increasing premiums and indemnities by 19 percent, which represented the average relation between lint and seed returns during a base period used for computing average yields and rates. With an additional year in the base period, this relationship for 1943 insurance was 20 percent.

Another variation is that for cotton the insurance period continues up to the time the seed cotton is weighed in at the gin. For wheat, the insurance ceases upon threshing except for wheat combined and sacked in the field, in which case the period is extended to give the insured time to remove the sacked wheat from the field. For both crops a final date is also established.

ADJUSTMENT OF 1942 COTTON LOSSES

Settlement of loss claims in cotton began immediately after the season became too far advanced for acreage on which the crop was destroyed to be replanted and continued well beyond the normal harvesting date. Owing to the wide difference in planting and harvesting dates from the earliest producing area to the latest, the adjustment period lasted from the early summer of 1942 to the late spring of 1943. At the end of the fiscal year, June 30, 1943, claims aggregating 52 million pounds had been paid to 47,000 insured growers (table 7).

Adjustment of cotton losses presented some new and difficult problems. The work was new to most county committees. Because of the nature of the crop and wide differences in practices in a community, the committees frequently were placed in a precarious position in making early-in-the-season determinations of the farming practices which would be approved in the event of loss. Perplexing problems arose as to whether the insurance contract required all insured growers in an area to follow established cultural practices or whether an individual grower who, during the period used to establish his average yield and premium rate had successfully used his own methods, would be insured without penalty if he continued such methods in 1942. The most difficult of these problems were those relating to planting, fertilizer, and insect-control practices.

Where loss claims were not made until after the crop was harvested and ginned, the adjuster and the county committee had no opportunity to observe or inspect the damaged crop and often were placed in a position of making an indefinite determination of the cause and date of loss. In such cases it was also difficult to determine whether all of the provisions of the contract had been carried out by the insured and whether the amount of loss claimed was accurate.

Among the most difficult problems in the cotton loss-adjustment work were those involving the release of insured acreage prior to maturity of the crop and the appraisal of prospective yields on such acreage. Of the 753,000 acres which preliminary figures indicate were indemnified, about 87 percent were harvested, 7 percent having been released by the Corporation prior to maturity, 4 percent representing acreage on which a stand was obtained but no cotton was harvested, and 2 percent representing acreage on which the insured was unable to obtain a stand of cotton. The yield appraised on acreage which was released early in the season amounted to about 6 pounds of lint per acre. Appraisals of the lint equivalent of unginned cotton on hand at the time of settlement or sold as seed cotton were necessary for one-fourth of the indemnified farms. The yield of unharvested cotton was appraised for nearly 3 percent of the indemnified farms. Incomplete tabulations indicate that adjustments to production because of failure of the insured to fulfill the terms of the insurance contract were made in about 3 percent of the indemnified cases, the majority of which

were for making other use of insured acreage without first getting a release from the Corporation and for poor farming practices.

TABLE 7.—*Cotton crop insurance experience by States and by years* [1]

[As of June 30, 1943]

State and crop year	Farms Insured [2]	Indemnities	Crop area insured [3]	Premiums	Indemnities	Premiums less indemnities	Loss ratio [4]
Alabama:	*Number*	*Number*	*Acres*	*Pounds*	*Pounds*	*Pounds*	
1942	11,551	4,171	113,527	1,328,243	2,845,475	−1,517,232	2.14
1943	14.585						
Arizona:							
1942	697	110	37,499	340,633	398,058	−57,425	1.17
1943	1,664						
Arkansas:							
1942	8,722	2,097	120,952	1,245,079	2,191,996	−946,917	1.76
1943	9,290						
California:							
1942	1,459	134	42,634	531,099	937,495	−406,396	1.77
1943	1,101						
Florida:							
1942	885	377	4,496	55,974	142,449	−86,475	2.54
1943	528						
Georgia:							
1942	24,391	6,596	284,135	3,599,760	5,869,617	−2,269,857	1.63
1943	18,947						
Illinois:							
1942	307	58	2,267	29,727	31,343	−1,616	1.05
1943	275						
Kentucky:							
1942	324	125	1,180	18,128	28,910	−10,782	1.59
1943	800						
Louisiana:							
1942	11,659	3,487	147,352	2,012,846	4,015,338	−2,002,492	1.99
1943	11,329						
Mississippi:							
1942	8,704	689	101,764	1,264,082	410,816	853,266	.32
1943	3,127						
Missouri:							
1942	3,990	222	47,316	447,848	123,578	324,270	.28
1943	7,630						
New Mexico:							
1942	1,778	382	41,930	799,474	706,902	92,572	.88
1943	1,955						
North Carolina:							
1942	9,565	508	56,550	552,420	154,604	397,816	.28
1943	12,659						
Oklahoma:							
1942	9,900	3,647	129,504	1,820,355	3,451,237	−1,630,882	1.90
1943	9,920						
South Carolina							
1942	20,165	5,703	243,536	3,258,575	5,945,941	−2,687,366	1.82
1943	19,013						
Tennessee:							
1942	3,628	367	27,041	273,531	116,879	156,652	.43
1943	6,847						
Texas:							
1942	54,355	18,474	1,321,307	13,841,413	24,750,625	−10,909,212	1.79
1943	57,025						
Virginia:							
1942	641	48	2,346	32,048	37,957	−5,909	1.18
1943	601						
Total:							
1942	172,721	47,195	2,725,336	31,451,235	52,159,220	−20,707,985	1.66
1943	177,296						

[1] Includes American Egyptian cotton in Arizona for 1942 and in Arizona, New Mexico, and Texas for 1943.
[2] Data for 1943 are preliminary. Includes duplication where both landlord and tenant are insured.
[3] Data are preliminary.
[4] Ratio of indemnities to premiums.

In extending the insurance coverage to losses brought about by war-created shortages of labor and materials, the Corporation was mindful of three pertinent considerations: (1) Losses of this type are unavoidable, although not provided for in the establishment of premium rates because losses from such causes had not occurred during

the base period; (2) under the contract as originally written the Corporation assumes no liability under the contract for losses resulting from poor farming practices, including failure to apply labor and other essentials; and (3) in most instances of loss from these causes, the insured, by virtue of not being able to hire labor or buy materials, effects savings in production costs to offset in whole or in part the loss that occurred, and in such cases, the indemnity under the contract should be determined with due consideration to such savings in cost.

The determination of whether or not a loss was caused by the war-created shortage of labor or materials was predicated on the efforts made by the insured to obtain these essentials. From the amount of loss determined to have been caused by such unavoidable war-created shortages were deducted the savings in cost effected by the insured. As a consequence, the settlement of this type of loss involved a determination not only of the amount of war-shortage loss separately from other losses, but also of whether the insured claiming a war-shortage loss made a reasonable effort to obtain the labor or materials. An exact quantitative measurement of individual ability is of course impossible.

Although the amount of indemnity paid for war-shortage losses was considerable in a few counties, it is believed that the extension of the insurance coverage to this type of hazard without assessing additional premium contributed little to the total indemnities paid. Inability to obtain fertilizer and labor for harvest were the most common causes of war-shortage claims.

A careful study has been made of the loss-adjustment problems encountered in cotton, and regional meetings were held for the purpose of improving this phase of the work. It is believed that procedures for 1943 will be better understood and will be interpreted more uniformly throughout the producing area. However, very heavy losses from floods in parts of Arkansas, Missouri, Tennessee, and Oklahoma and from drought in other areas are already in evidence for 1943.

LOCATION AND CAUSES OF 1942 COTTON LOSSES

Heaviest losses to the 1942 cotton crop were suffered in South Carolina, Georgia, and Alabama and in parts of Texas, Oklahoma, Arkansas, and Louisiana. Losses from excessive rainfall and later by drought were severe in a large arc about 150 miles wide just below the fall line, extending from north central South Carolina through Georgia, across southern Alabama, and reaching into Florida and southern Mississippi. All causes of loss have not yet been tabulated, but indications are that drought, flood, hail, and boll weevil were the major ones contributing to 1942 cotton losses.

Some losses were indemnified in nearly all counties in the Cotton Belt in which insurance was written, ranging from a few hundred pounds to over a million pounds in two counties, one of which was in central Texas and the other in South Carolina. The central-Texas county's losses were caused by floods and those of the South Carolina county by severe drought. Generally, losses were heavy in the sections where participation was large and were the most serious in the low-risk areas. Losses were probably most unusual in parts of South Carolina and Georgia, where very low yields were obtained in 1941 as well as in 1942. Unusually heavy flood losses occurred along the upper reaches of the Arkansas and Red Rivers in Arkansas and Louisiana and along the Trinity River in Texas. Cotton crops in

parts of these areas were again devastated by floods in 1943, although most of the insured growers were able to plant the land to late crops. These extremely heavy losses in certain areas largely account for the high loss ratio of 1.66 for the Belt as a whole. (See table 7.)

COTTON YIELDS AND RATES FOR 1943

Yields and rates for the 1943 crop year were established very much the same as for 1942 except that the yield and loss experience for 1941 were included in the individual farm yield and premium rates. These data, which were based on actual acreage and production, were available for a large majority of the cotton farms, and it is believed that their inclusion should have materially improved the actuarial structure for cotton insurance. A premium rate schedule method of determining individual farm premium rates very similar to that used for the 1943 wheat crop was tried out in a few representative counties of the Cotton Belt in an effort to determine the feasibility of this method of determining premium rates for cotton. The complete results of this experiment are not available as yet.

Because of the fact that premium rates for cotton were originally established on the basis of entire farms, while the insurance protection covered fractional parts of farms separately, the premium rates for fractional parts in excess of four per farm were increased in 1942 above the rate for the entire farm to take care of this additional risk. While this plan had merits, actuarially, the difficulties of administering it outweighed its advantages. For this reason the 1943 premium rate determined for the farm as a whole was used for each fractional part which was to be insured as a separate insurance unit except where different premium rates had been established for tracts widely separated or varying widely in productivity and farming hazards. In such cases the premium rate as established for each such widely varying tract was used.

WHEAT

At the beginning of the 1943 fiscal year the Corporation was adjusting and paying losses on its fourth year of insurance on wheat and had started to write contracts—3-year contracts—on the 1943 crop. On June 30, 1943, about 10½ million bushels of indemnities had been paid to 108,000 wheat growers who had insured their 1942 crop, and new contracts had been written on over 487,000 farms for 1943.

LOCATION AND CAUSES OF 1942-43 WHEAT LOSSES

In 1942 the heaviest losses occurred in what is normally a low-risk area and were caused by excess moisture, poor seeding and growing conditions, and winter-kill. The area affected by these hazards extended from eastern Kansas to Indiana. Heavy losses from green bugs occurred in the southern part of Oklahoma and northern Texas. There was a substantial acreage in these areas released for the growing of other crops. Considerable acreage was released in some areas for growing soybeans, an important war-time crop. On these abandoned acreages indemnities were very heavy.

Of the 9½ million acres of wheat insured in 1942, at least 517,000 acres, or nearly 5½ percent, were abandoned. This abandonment occurred only on those farms on which a loss was paid; complete abandonment data are not available for farms on which no loss was paid. Over 21 percent, or 111,000 acres, of this abandoned acreage

was definitely reported to have been released early in the season so that the acreage could be put to another use and on this acreage the prospective yield for which the Corporation takes a credit on the loss averaged 1.2 bushels. Seven percent, or 33,000 acres, was definitely reported to have been abandoned at harvesttime, with an average yield of 1.3 bushels taken as a credit against what otherwise would have been a full loss. The remaining 72 percent, or 373,000 acres, of the total acreage abandoned was reported as totally destroyed, with no prospective or actual yields. Information is not available, however, as to what part of this 373,000 acres was released early for the growing of another crop and what portion was abandoned at harvesttime. Thus the bulk of acreage abandoned carried indemnities at the full amount of coverage, and indemnities were paid on the remainder of the abandoned acreage at about a bushel less than the full coverage. Of the 517,000 acres abandoned, approximately 200,000 were in Oklahoma and Texas, mainly in the area affected by green bugs. Another 200,000 were in Indiana, Illinois, Missouri, and eastern Kansas, representing the area affected by a wet fall and winter-kill. Both of these areas were normally low-risk areas with fairly high coverages so that the losses on this abandoned acreage or practically full coverage represented a substantial part of the total indemnities paid on wheat in 1942.

Indications are that green bugs will again take a heavy toll in 1943 in certain areas of Texas and Oklahoma. Scattered losses from drought are expected in western Texas, Oklahoma, and Kansas. Rather severe losses from hessian fly occurred in the lower section of east-central Kansas. A contributing cause to many partial losses from the Corn Belt States on east was the late, cold planting season which resulted in a poor stand. Floods also caused heavy damage to the 1943 wheat crop. Early reports from Oklahoma, Missouri, Illinois, Kansas, and Arkansas show that major floods during May and June damaged nearly 300,000 acres of wheat and cotton on more than 20,000 insured farms. Some 1943 losses in Ohio have been attributed to wheat scab.

TERM INSURANCE FOR THE 1943 WHEAT CROP

Beginning with the 1943 wheat crop, a 3-year term contract rather than an annual contract was offered. It is believed that the term contract will materially reduce the amount of year-to-year selection. A still longer term contract would perhaps be better, but it appeared that 3 years was about as long a time as the farmer would desire to commit himself in advance. Obviously the advantage of the term contract as it relates to the elimination of selectivity is not felt in the first year, and consequently no benefits in this respect can be expected for 1943.

The second important reason for the adoption of the term contract was to eliminate the necessity of selling all of the insurance every year. Many farmers would sign up for 3 years as willingly as for 1 year if convinced of the value of insurance to them. Obtaining the business for 3 years instead of 1 would reduce the cost and work involved, would furnish a backlog of business already written each year to which new business could be added, and would make it possible to canvass all wheat growers more thoroughly over a period of years.

When the term contract was planned, it was anticipated that the amount of participation in 1943 would decrease somewhat because of

the greater difficulties in selling a 3-year contract than an annual contract. The response, however, to the 3-year contract was much better than expected. Participation for the country as a whole showed only a negligible decrease. In fact, many farmers preferred the 3-year contract to the annual contract. Participation in 1943 was lower in the Great Plains than it had been in 1942, but this was probably due much more to good moisture conditions in that area than to the adoption of the term contract. As a consequence, some selectivity still exists, but if the program were to continue, it is probable that much insurance would be written again in that area when prospects for a crop were not above normal and such business would be held for 3 years despite improvement in soil-moisture conditions.

FINANCIAL AND COMMODITY REPORT

Owing to the requirements of a yield-insurance program, premiums, guaranteed yields, and indemnities are computed in terms of the commodity insured. The wheat actuarial structure is thus expressed in terms of bushels, and cotton in terms of pounds.

For the purpose of making cash settlements, premiums and indemnities are translated into current market prices at the farm.

The comparative financial position of the Corporation as of June 30, 1942 and 1943, is reflected in table 8.

COMMENTS ON BALANCE SHEET (TABLE 8)

CASH

The cash, amounting to $7,838,691.99, is deposited with the Chief Disbursing Officer of the Treasury Department. The facilities of the Disbursing Office of the Treasury are used by the Corporation for deposits and disbursements.

ACCOUNTS RECEIVABLE

The amount of $1,219,199.33 mainly represents the balance of premiums due for the 1942 crop year. As of June 30, 1942, the value of 1942 crop-year premiums was estimated in the amount of $14,699,-892.28. As of June 30, 1943, no estimate was made of 1943 crop-year premiums. Consequently the amount due by insured growers is not comparable as of the close of the 1942 and 1943 fiscal years.

INTERAGENCY ASSETS—COMMODITY CREDIT CORPORATION

The amount due from the Commodity Credit Corporation, $3,435,-326.73, includes a charge of $2,180,829.92 representing the excess value of wheat turned over to the Commodity Credit Corporation in exchange for 1941 crop-year certificates of indemnity on which unredeemed loans were made to wheat growers by that Corporation. Approximately 10,660,000 bushels of wheat were exchanged for the unredeemed certificates of indemnity representing about the same number of bushels.

The wheat inventories were valued at their location prices while certificates of indemnity values were based on prices at the farm, which together with certain warehousing-cost adjustments between both Corporations, account for the excess value.

The amount of $3,435,326.73, which is due from the Commodity Credit Corporation, also includes a balance of $1,254,496.81 in the

account of the Federal Crop Insurance Corporation covering wheat and cotton transactions incident to price protection operations for the 1942 crop year.

TABLE 8.—*Comparative balance sheet for the fiscal years ended June 30, 1942, and June 30, 1943, as of June 30, 1943*

ASSETS

Item	Fiscal year ended—		Increase or decrease as of 1943
	June 30, 1942	June 30, 1943	
Cash	$3,906,484.59	$7,838,691.99	+$3,932,207.40
Accounts receivable:			
Administrative fund	255,005.10		−255,005.10
Insured growers [1]	14,699,892.28	1,219,199.33	−13,480,692.95
Other	24,803.75	3,504.56	−21,299.19
Total accounts receivable	14,979,701.13	1,222,703.89	−13,756,997.24
Interagency assets: Commodity Credit Corporation		3,435,326.73	+3,435,326.73
Other assets:			
Inventory (stated at cost value):			
Wheat	9,698,253.94	6,040,929.06	−3,657,324.88
Cotton		238,748.46	+238,748.46
Total inventory	9,698,253.94	6,279,677.52	−3,418,576.42
Total assets	28,584,439.66	18,776,400.13	−9,808,039.53

LIABILITIES AND NET WORTH

Accounts payable:			
Administrative fund		$708,438.11	+$708,438.11
Indemnities (estimated)	$8,446,000.00	6,053,800.00	−2,392,200.00
Other	225.44	2,482.34	+2,256.90
Total liabilities	8,446,225.44	6,764,720.45	−1,681,504.99
Net worth:			
Capital stock authorized	100,000,000.00	100,000,000.00	
Less unappropriated	60,000,000.00	60,000,000.00	
Appropriated for subscription to capital stock	40,000,000.00	40,000,000.00	
Less capital funds unrequisitioned from U. S. Treasury and unapportioned	20,000,000.00	5,000,000.00	−15,000,000.00
Capital funds requisitioned from U. S. Treasury	20,000,000.00	35,000,000.00	+15,000,000.00
Operating surplus (+) or deficit (−)	+138,214.22	−22,988,320.32	−23,126,534.54
Total net worth	20,138,214.22	12,011,679.68	−8,126,534.54
Total liabilities and net worth	28,584,439.66	18,776,400.13	−9,808,039.53

[1] As of June 30, 1943, the Corporation held contracts with producers covering 487,663 and 177,296 wheat and cotton insurance units, respectively, for the 1943 crop year. No amount therefor is shown in this balance sheet since the cash values of the premiums are not determined until specified maturity dates ranging from July 10 to Oct. 15, 1943. As of June 30, 1942, the value of 1942 crop-year contracts was estimated.

Prior to the 1942 crop year the Corporation purchased and sold wheat stocks through its own facilities. However, in order to reduce administrative expenses, it was arranged for the Commodity Credit Corporation to assume these functions. Briefly, the arrangement provides that the Commodity Credit Corporation shall act as the agent of the Federal Crop Insurance Corporation in the acquisition and disposition of commodities essential to price protection.

OTHER ASSETS—INVENTORY

As of June 30, 1943, the Corporation owned 4,843,550 bushels of wheat and 1,260,000 pounds of cotton having a cost value of $6,040,929.06 and $238,748.46 respectively.

TABLE 9.—*Commodity inventory requirements, 1942 crop year, as of June 30, 1943*

Item	Wheat	Cotton
	Bushels	*Pounds*
Indemnities [1]	10,560,645	51,884,732
Less liquidations	5,668,836	50,724,242
	4,891,809	1,160,490
Plus 4 percent to place on net-weight basis		46,420
	4,891,809	1,206,910
Inventory held by Commodity Credit Corporation for account of Federal Crop Insurance Corporation	4,843,550	1,260,000
Short position	48,259	
Long position		53,090

[1] Represents claims for which certificates of indemnity were issued. Does not include unprocessed claims in branch offices. Actual claims for wheat and cotton including unprocessed claims recorded on the Corporation's books amounted to 10,570,880 bushels and 52,159,220 pounds, respectively.

In determining the commodity requirements of the Corporation it was the practice during the 1942 crop year to estimate at harvesttime the probable indemnities in terms of the commodity, deduct the commodity represented by certificates of indemnity liquidated by cash settlement, and acquire or sell commodity stocks to conform with the balance. As factual data became available the estimate of indemnities was revised to conform therewith. As of June 30, 1943, the Corporation's commodity inventories in relation to its requirements are shown in table 9.

ACCOUNTS PAYABLE

The amount of $708,438.11 owing to the administrative fund represents the net balance of warehousing-cost transactions effected through the capital funds of the Corporation for the account of the administrative fund.

It has been the policy of the Corporation to consider such transactions as applicable to the general administration of the program, but for convenience in accounting, since such items are closely related to certain insurance operations such as deductions for warehousing costs in indemnity settlements, it was considered more practicable to pay warehousing costs from the capital funds and to deposit in such funds warehousing-cost recoveries deducted from cash settlements of certificates of indemnity. An interfund account is maintained which is periodically cleared by cash transfers between funds. This arrangement was started during the fiscal year 1942. Prior to that time disbursements and deposits of warehousing-cost transactions were handled directly through the administrative-fund accounts.

Outstanding certificates of indemnity amount to 5,022,444 bushels of wheat and 1,436,732 pounds of cotton, having an estimated monetary value at the farm of $6,053,800. Of these outstanding certificates of indemnity, certificates covering 4,777,101 bushels of wheat and 286,921 pounds of cotton are held by the Commodity Credit Corporation as collateral for unredeemed loans to growers.

Settlement of these certificates will be effected with the Commodity Credit Corporation by an exchange of the commodity inventories for the outstanding certificates of indemnity. Both the inventories and certificates of indemnity will be valued on the basis of the prices agreed

to by the two Corporations. A cash settlement will be made for the difference in value.

CAPITAL STOCK

As of June 30, 1943, the Corporation had requisitioned 35 million dollars of the 40 million dollars of capital stock subscribed by the Secretary of the Treasury.

OPERATING DEFICIT

The operating deficit reflects the excess cost of indemnities over the amount of premiums. The cumulative operations of the Corporation showing a deficit of $22,988,320.32 and the commodity equivalents are summarized by crop years in table 10.

TABLE 10.—*Summary of operations by crop years in terms of dollars and commodities, as of June 30, 1943*

Crop year	Dollars			Commodity		
	Premiums	Indemnities	Deficit	Premiums	Indemnities	Deficit
Wheat:				*Bushels*	*Bushels*	*Bushels*
1939	$3,410,936.78	$5,605,931.41	−$2,194,994.63	6,670,315	10,163,899	−3,493,584
1940	9,155,176.71	13,873,869.35	−4,718,692.64	13,796,798	22,899,016	−9,102,218
1941	7,096,587.90	14,726,793.71	−7,630,205.81	12,643,186	18,837,078	−6,193,892
1942	8,447,880.78	12,191,395.15	−3,743,514.37	8,770,002	10,570,880	−1,800,878
1943 [1]	85,418.67	171,371.03	−85,952.36	79,260	140,563	−61,303
Total wheat	28,196,000.84	46,569,360.65	−18,373,359.81	41,959,561	62,611,436	−20,651,875
Cotton:				*Pounds*	*Pounds*	*Pounds*
1942	6,303,247.85	10,923,885.04	−4,620,637.19	31,451,235	52,159,220	−20,707,985
1943 [1]	9,424.68	300.00	+9,124.68	38,797	1,754	+37,043
Total cotton	6,312,672.53	10,924,185.04	−4,611,512.51	31,490,032	52,160,974	−20,670,942
Total wheat and cotton	34,508,673.37	57,493,545.69	−22,984,872.32			
Plus other charges			−3,448.00			
Total deficit	34,508,673.37	57,493,545.69	−22,988,320.32			

[1] Includes only collections of premiums and approved indemnities to June 30, 1943. Practically all 1943 crop-year operations will be recorded during the 1944 fiscal year.

OPERATING AND ADMINISTRATIVE EXPENSES

A comparison of operating and administrative expenses and appropriations for the fiscal year ended June 30, 1942 and 1943, is shown in table 11.

During the 1943 fiscal year the total expenditures of the Corporation decreased $2,283,973.06. This decrease is due in part to economies in organization effected by the consolidation of the wheat branch offices and by the utilization of the facilities of the Commodity Credit Corporation to acquire and dispose of commodities necessary for price protection, thereby eliminating the personnel and operational services in the Federal Crop Insurance Corporation formerly required for such functions. Another contributing factor to the decrease of expenditures is the recovery of warehousing costs from the cash settlement of outstanding certificates of indemnity.

The expense credit items appearing in table 11 for printing and binding and for equipment purchases are the result of adjustments made during the 1943 fiscal year for canceled obligations applicable

to the 1942 fiscal year. The credit amount for wheat storage includes a similar adjustment for canceled obligations, plus warehousing cost recoveries deducted from cash settlements of certificates of indemnity.

The other expense items shown in table 11 are considered self-explanatory.

TABLE 11.—*Comparative statement of operating and administrative expenses and appropriation reconciliations for the fiscal years ended June 30, 1942, and June 30, 1943, as of June 30, 1943*

Item	Expenses for the fiscal year ended—		Increase or decrease as of 1943
	June 30, 1942	June 30, 1943	
Direct expenses except commodity storage:			
Personal services	$1,149,863.62	$1,153,036.77	+$3,173.15
Travel	100,845.20	64,289.92	−36,555.28
Transportation of things	30,329.49	18,747.02	−11,582.47
Communication service	22,541.93	6,926.84	−15,615.09
Rents and utility services	52,538.01	41,082.18	−11,455.83
Printing and binding	74,237.64	−1,694.78	−75,932.42
Other contractual services	51,123.40	8,319.23	−42,804.17
Commodity purchase expense		20,705.00	+20,705.00
Disposition and depreciation of property		57,937.27	+57,937.27
Supplies and materials	108,212.49	16,028.32	−92,184.17
Total direct expense except commodity storage	1,589,691.78	1,385,377.77	−204,314.01
Commodity storage:			
Wheat storage	716,974.91	−938,761.73	−1,655,736.64
Cotton storage			
Total direct expense	2,306,666.69	446,616.04	−1,860,050.65
Allotted to cooperating agencies:			
Office of the Secretary	67,410.00	69,600.00	+2,190.00
Bureau of Agricultural Economics	105,582.00	104,551.00	−1,031.00
Office of Information	9,800.00	14,921.00	+5,121.00
Office of the Solicitor	45,922.00	56,170.00	+10,248.00
Agricultural Marketing Administration	2,000.00	2,000.00	
Agricultural Adjustment Agency	5,314,859.00	4,884,579.00	−430,280.00
Library, Department of Agriculture	840.00	800.00	−40.00
Treasury Department:			
Division of Disbursement	11,196.00	21,945.00	+10,749.00
Treasury, Return of Travel Funds Public Law, 674		42,537.00	+42,537.00
Total expense of cooperating agencies	5,557,609.00	5,197,103.00	−360,506.00
Total expense	7,864,275.69	5,643,719.04	−2,220,556.65
Equipment purchased	55,430.99	−7,985.42	−63,416.41
Total expenditure	7,919,706.68	5,635,733.62	−2,283,973.06
Adjustments in expired appropriations during 1943 fiscal year		1,167,841.03	+1,167,841.03
Total expenditure from current appropriation	7,919,706.68	6,803,574.65	−1,116,132.03
Unexpended balance of current appropriation	640,120.32	1,827,866.62	+1,187,746.30
Less adjustment to equipment		57,937.27	−57,937.27
Balance	640,120.32	1,769,929.35	+1,129,809.03
Total appropriations	8,559,827.00	8,573,504.00	+13,677.00
Appropriations:			
President's fund		550.00	+550.00
Annual appropriation	8,559,827.00	8,572,954.00	+13,127.00
Total appropriations	8,559,827.00	8,573,504.00	+13,677.00

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